

# Women's Wealth

*Specialist financial planning for women by women!*

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## Myth Buster



### Myth:

A financial planner or advisor only gives me advice on investing.

### Truth:

Investing is certainly an important part of your personal finances, but there's much more to a solid financial plan. Proper financial planning takes into account all of the varied financial aspects including insurance, retirement, budgeting, estate planning, liquidity requirements and other life goals. A good financial planner should have the ability to assist you in evaluating various and sometimes conflicting financial aspects and develop strategies to make these parts work together efficiently.



## The Cycle of Investor Emotions

When things are great, we feel that nothing can stop us, and when things go bad, we look to take drastic action. Because emotions can be such a threat to our financial health it is important that we are aware of them.

When the markets experience an upward or downward spike it can be difficult not to get caught up in the hype. From attention-grabbing news headlines to predictions from industry economists, it seems everyone has a different opinion on what the market will do next and the action you should take. When it comes to your investments, the best strategy is to remain focused on the long-term and not be swayed by your emotions.

As investors, we all start with optimism. We commonly expect things to go our way, or, to be honest, we expect a return for the risk of investing.

As our expectations are met we get excited about the possibility of even greater returns, and the excitement becomes thrilling as the returns exceed our expectations. We are at the top of the cycle when we experience euphoria. It is at this time that we are at the point of maximum financial risk. When we believe everything that we touch turns to gold, we fool

ourselves into believing that we can beat the market, that we cannot make mistakes, that excessive returns are common place and that we can tolerate higher levels of risk.

The second phase of the cycle occurs when the market stops meeting our new lofty expectations and begins to turn. At first, we anxiously watch the market for any signs of direction. Our anxiety turns to denial and then quickly to fear as the value of our investments declines. We start to act defensively and may think about switching out of riskier assets to more defensive shares or other asset classes such as bonds.

In the third phase of the cycle, the realities of a bear market come to the forefront and we become desperate. Many of us panic and withdraw from the market altogether - afraid of further losses. Those of us who persevere become despondent, and we wonder whether the markets are ever going

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## The Cycle of Investor Emotions

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to recover and whether we should be there at all.

Ironically, at these times, we commonly fail to recognise that we are actually at the point of maximum financial opportunity.

### What are the consequences of this emotional roller-coaster?

Emotions turn rational investors into irrational investors. As investors, we need to remember that markets move and our investments will always go in and out of favour.

Developed, diversified long-term financial plans are placed in jeopardy when investors are controlled by extraordinary events, because they are guided by their emotions.

You can help to avoid the emotional roller-coaster by being aware of the emotions you are likely to experience.

### The five most common behavioural pitfalls are:

- 1. Overconfidence** - When investors overrate their ability to select winning shares or investment managers.
- 2. Loss aversion** - Research indicates that a loss causes about twice as much pain as a gain causes pleasure. During periods of market volatility, investors experience the sense of loss more acutely.
- 3. Chasing past performance** - We see this time and time again, but unfortunately, individual investors who are abandoning a well-diversified portfolio for bonds, or even cash, may be jeopardising their future financial security.
- 4. Timing the market** - Research shows that no one can accurately time the market.
- 5. Failure to rebalance** - The risk/return characteristics of an investor's portfolio should be independent of what's happening in the market, and this means selling high and buying low.

You can resist the temptation to fall into one of these traps by developing and committing to a well-defined, long-term investment policy. This is the best way to protect yourself from your emotions.

Remember, how you react to market cycles will ultimately affect your investment balance, so try not to be swayed by market fluctuations or the opinions of others.

Source: Russell Investments

## Tip of the Month



### Christmas season shopping

Christmas is a season of major spending, when families often accumulate excessive credit card debt. Here's how to avoid the credit card "holiday hangover".

#### Set a budget and stick to it

It is important to identify the amount you can realistically afford to spend. Compare this amount with an approximate tally of last year's total holiday spending to determine if and where you should cut back.

#### Make a list and stick to it

List your gift recipients and other seasonal necessities (wrapping, cards, party supplies etc). If the total cost exceeds your allocated budget, start editing your list until your budget covers your expenses. Carry your list with you when shopping as it will help you resist the urge to make impulse purchases.

#### Treat credit card purchases as part of your total budget

Count everything you put on your credit card towards your set budget as every dollar counts.

#### Do your Christmas shopping early and shop alone

Research tells us that shopping with a friend or family member often causes people to spend more. The more time you spend in a store, the more tempted you are to indulge. By shopping alone you can think about and review what you're buying.

#### Get creative and design cherished gifts for little or no cost

Here are some suggestions for low-cost gifts that convey the spirit of the season: enlarged photographs, personalised gift wrap, homemade cookies, candy, jams, wreaths and tree decorations, or, for your overseas friends and relatives, a DVD display of your family photographs.

Source: Horwath Financial Services Ltd

For more information about how we can help you gain control of your finances, please contact **Ofra Ou** and **Lavina Tharani** at:

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